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**PACIFIC TELESIS**  
Group-Washington

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JAN 27 1997

Federal Communications Commission  
Office of Secretary

January 27, 1997

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222  
Washington, DC 20554

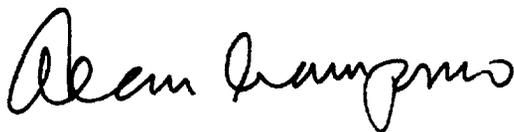
Dear Mr. Caton:

Re: *CC Docket No. 97-21, Changes to the Board of Directors of the National Exchange Carrier Association, Inc.*

On behalf of Pacific Telesis Group, please find enclosed an original and six copies of its "Comments" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Enclosure

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

RECEIVED

JAN 27 1997

Federal Communications Commission  
Office of Secretary

In the Matter of

Changes to the Board of Directors of the National  
Exchange Carrier Association, Inc.

CC Docket No. 97-21

**COMMENTS OF PACIFIC TELESIS GROUP  
ON NOTICE OF PROPOSED RULEMAKING**

I. INTRODUCTION

Pacific Telesis Group hereby comments on the Commission's *Notice of Proposed Rulemaking*<sup>1</sup> regarding the suitability of the National Exchange Carrier Association ("NECA") to serve as the interim administrator of the federal universal service fund. We wholeheartedly support NECA in this role: NECA is making significant changes to its organizational structure in order to meet the Commission's criteria for an appropriate administrator, and has the experience and large-scale information processing and database capabilities that the Commission seeks.

NECA has informed the Commission that it stands ready to establish a wholly-owned subsidiary with a balanced, representative board to temporarily administer the schools, libraries and health care aspects of the universal service program. In order to meet the Joint Board's recommendation that these aspects of the program be instituted in time for the 1997-98 school year (a

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<sup>1</sup> *In the Matter of /Changes to the board of Directors of the National Exchange Carrier Association, Inc., Notice of Proposed Rulemaking and Notice of Inquiry*, CC Docket No. 97-21, FCC 97-11 (rel. Jan. 10, 1997) ("NPRM").

mere 8 months away), we urge the Commission immediately to approve NECA's proposal for interim administration.

NECA has also stated that if selected as permanent administrator of the universal service fund, the subsidiary would be divested from its affiliation with NECA and could administer not only the schools, libraries and health care aspects of the program, but the high cost, low income, and telecommunications relay aspects of the fund as well. Because the Commission has issued a separate *Notice of Inquiry* regarding the issue of a permanent administrator, we will not comment on this aspect of NECA's proposal at this time.

II. THE COMMISSION SHOULD ALLOW NECA TO ESTABLISH A SUBSIDIARY TO TEMPORARILY ADMINISTER NEW UNIVERSAL SERVICE PROGRAMS

The Commission seeks input "on how the Commission should change its rules so that NECA's Board can ensure significant, meaningful representation of non-incumbent LEC interests and still operate in an efficient, fair, and competitively-neutral manner" as temporary administrator.

*NPRM*, ¶ 11. In a letter to Chairman Reed Hundt dated January 10, 1997 (copy attached), NECA proposed interim changes in its governance to broaden support for its appointment as interim fund administrator.<sup>2</sup> NECA proposed that immediately upon being appointed temporary administrator, it would establish as a wholly-owned subsidiary a universal service administrative company ("USAC") to administer the schools, libraries and rural health care aspects of the universal service program.

As NECA explained, the USAC would have a "balanced, representative board that would be based on Commission recommendations . . . ." The [interim] USAC would have full control over administration of [the schools, libraries and health care] programs. Necessary NECA personnel

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<sup>2</sup> This letter postdates the NECA filing the Commission discusses in the *NPRM*, which NECA made on October 18, 1996. Thus, it represents NECA's most up-to-date proposal.

would be dedicated to the USAC and support services would be obtained from NECA on a chargeback basis pursuant to NECA’s Commission-approved cost allocation manual.”

We believe NECA’s proposal allays any concerns the Commission or others might have about the organization’s suitability to serve as temporary administrator. NECA’s proposal would separate the administrative function from NECA’s tariff-filing and advocacy function. We are unaware of any “legal limitations [that would] preclude NECA from creating an advisory committee, or, alternatively, a new subset of directors, whose responsibilities [would be] confined solely to matters relating to the administration of the universal service support mechanisms.” *NPRM*, ¶ 13.

Given that the position will be only temporary, we do not propose any rule changes at this time. *NPRM*, ¶ 11. In any event, because NECA’s current proposal in this regard is not to modify its current Board composition, but to create a new one, the rule changes the Commission proposes are not relevant. *NPRM*, ¶ 13. We would suggest rule changes be made at the time a permanent administrator is named.

We understand NECA is open to suggestions regarding the composition of the “balanced, representative board” it proposes, and the nomination and election process for Board members. *NPRM*, ¶ 13. We make no specific recommendation in this regard.

### III. CONCLUSION

NECA has the experience, the large-scale information processing and database capabilities (*NPRM* ¶ 6), and the will to serve as temporary administrator. It has proposed changes in its organizational structure that will meet any concerns about its neutrality. We respectfully request that

the Commission appoint NECA as interim administrator of the schools, libraries and health care aspects of the universal service program as soon as possible.

Respectfully submitted,

PACIFIC TELESIS GROUP

A handwritten signature in black ink that reads "Sarah R. Thomas". The signature is written in a cursive style and is positioned above a horizontal line.

MARLIN D. ARD  
SARAH R. THOMAS

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Its Attorneys

Date: January 27, 1997

# **ATTACHMENT**

**NECA** NATIONAL EXCHANGE  
CARRIER ASSOCIATION

100 South Jefferson Road  
Whippany, New Jersey 07981  
201/884-8100

Bruce W. Baldwin  
President

January 10, 1997

Reed E. Hundt, Chairman  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

Re: CC Docket No. 96-45 on Universal Service

Dear Chairman Hundt:

I last wrote you on October 18, 1996 to propose interim changes in governance of the National Exchange Carrier Association, Inc. (NECA), to broaden support for NECA's appointment as interim administrator of the new universal service programs to be established by the Commission. Since that time, the Federal-State Joint Board on Universal Service has issued its recommendation, comments have been filed on the recommendation and NECA has continued discussions with interested parties. In these discussions NECA has tried to develop governance proposals that will satisfy the varying concerns that have been expressed. It is becoming apparent, however, that it may not be possible to do so within the context of a single administrative organization. I would like to share with you our current view of the changes NECA will need to make to meet the Joint Board criteria, initially, for temporary administrator and eventually for permanent administrator, as a neutral third-party.

The Joint Board recommended that NECA be appointed temporary administrator for the Schools, Libraries and Rural Health Care Providers Program. To provide for expeditious implementation of this program NECA proposes that, immediately upon being appointed as temporary administrator and being authorized to commit resources, it would establish a wholly-owned subsidiary, a universal service administrative company (USAC), to administer the program. The USAC would have a balanced, representative board that would be based on Commission recommendations and would include some representation from the NECA Board. The USAC would have full control over administration of these programs. Necessary NECA personnel would be dedicated to the USAC and support services would be obtained from NECA on a chargeback basis pursuant to NECA's Commission-approved cost allocation manual. The USAC would participate in any bidding process to select a permanent administrator.

Reed E. Hundt  
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January 10, 1997

When and if selected as the permanent administrator of the new Universal Service Fund, USAC would be divested from its affiliation with NECA and would administer federal universal support programs, including the High Cost, Low Income, Schools, Libraries and Rural Health Care Providers and Telecommunications Relay Service Programs. The divested company could be established under Commission rule, as the Commission saw fit. It would be a non-stock corporation and would have no membership. Its board of directors could be further enhanced based on recommendations or appointments by the Commission.

Operationally, necessary NECA personnel and resources to administer the universal service programs would be transferred to the divested USAC upon its selection as permanent administrator. NECA anticipates sharing support services, such as human resources and information systems on a contractual basis between NECA and USAC for some period of time in order to take advantage of existing organizational efficiencies. NECA would no longer have any responsibility for universal service administration, but would continue to file and defend the access charge tariffs and administer the pooling revenue distribution process, essentially as it does today.

I believe the structures outlined above would be an effective way to meet Joint Board and Commission objectives for sound, efficient, impartial and rapid implementation of universal service programs under the Telecommunications Act of 1996. In the coming weeks NECA plans to meet with interested parties to discuss this approach and seek their ideas and suggestions.

Sincerely,

  
Bruce W. Baldwin

cc: FCC Commissioner Susan Ness  
FCC Commissioner Rachele Chong  
FCC Commissioner James Quello  
State Members, Federal-State Joint Board CC Docket 96-45  
Chief of the Common Carrier Bureau, Regina Keeney